

Message Text

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TAGS: ECON, EFIN, OECD, BE, LU

SUBJECT: OECD ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC) REVIEW OF BELGIUM AND LUXEMBOURG

REF: (A) USOECD 13667; (B) EDR (77) 12

1. APPRECIATE MISSION'S THOUGHTFUL ANALYSIS IN REF (A)
ESPECIALLY SINCE ONLY STATISTICAL ANNEX TO REF (B) WAS
RECEIVED IN TIME FOR REVIEW BY WASHINGTON AGENCIES.

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2. WE CONCUR IN LINES OF QUESTIONING PROPOSED PARA (10)
REF (A). OUR FURTHER THOUGHTS FOLLOW.

3. WE NOTE THAT SECRETARIAT FORECASTS 2.75 PERCENT REAL
GROWTH FOR 1977 AS AGAINST 3.5 PERCENT FOR 1976. SINCE
GOB FORECAST IS FOR 3.4 PERCENT (AND IMF FOR 3.2 PERCENT)
REAL GROWTH IN 1977, WE WOULD BE INTERESTED IN KNOWING

WHY SECRETARIAT IS MORE PESSIMISTIC THAN OTHERS, ESPECIALLY SINCE GOB RARELY TAKES OVERLY OPTIMISTIC VIEW IN ITS FORECASTS. PERHAPS SECRETARIAT WAS UNDULY INFLUENCED BY POOR THIRD QUARTER 1976 PERFORMANCE, (WHICH WAS OFFSET BY GOOD FOURTH QUARTER).

4. WE WONDER ABOUT SECRETARIAT DATA SHOWING 9.2 PERCENT INCREASE IN CPI DURING 1976, SINCE IFS SHOWS 7.6 PERCENT ON DECEMBER OVER DECEMBER BASIS. BELGIAN AUTHORITIES REPORTEDLY REVISED CPI IN JUNE 76. WAS OLD INDEX BASIS FOR SECRETARIAT FIGURE? IF SECRETARIAT'S 1976 CPI FIGURE IS TOO LARGE, WOULD THIS AFFECT THEIR ESTIMATE FOR 1977?

5. MISSION MAY WISH TO EXPLORE WHETHER SHIFT FROM BLEU "STRUCTURAL SURPLUS" INTO DEFICIT IS SYMPTOMATIC OF LONGER-TERM STRUCTURAL PROBLEMS IN BLEU INDUSTRY. IF THIS IS THE CASE, PROBLEM ASSUMES MUCH DIFFERENT DIMENSION.

6. BELGIAN FRANC APPRECIATED 6 PERCENT DURING 1976. IS SUCH APPRECIATION CONSISTENT WITH SECRETARIAT STATEMENT THAT BELGIAN FRANC WAS SUBJECT TO SPECULATIVE ATTACK ON MORE THAN ONE OCCASION DURING 1976?

7. THERE IS APPARENT MACRO-ECONOMIC POLICY INCONSISTENCY BETWEEN NEED FOR MORE STIMULATORY FISCAL POLICY THAN CURRENTLY INTENDED AND NEED FOR HIGHER TAXES AND GREATER EXPENDITURE CONTROL, BOTH OF WHICH ARE RECOMMENDED BY SECRETARIAT. PLANNED 1977 INCREASE IN VAT WOULD BE UN-HELPFUL IN TERMS OF ECONOMIC STIMULUS AS WELL AS HAVING LIMITED OFFICIAL USE

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ADVERSE EFFECT ON CPI.

8. RE "EGMONT PLAN" TO STIMULATE PUBLIC AND PRIVATE INVESTMENT, ETC. ONE FACTOR CONTRIBUTING TO WEAK GROWTH WAS DECLINE IN VOLUME OF NON-RESIDENTIAL FIXED INVESTMENT. TO WHAT EXTENT DID TIGHT MONETARY POLICY CONTRIBUTE TO THIS DECLINE?

9. SECRETARIAT NOTES NEED TO REDUCE BUDGET DEFICIT OVER MEDIUM TERM. CYCLICAL FACTORS MAY HAVE CONTRIBUTED TO THE DEFICIT. IF SO, THEN REVENUES SHOULD PICK UP AS ECONOMY EXPANDS, AND THERE MAY BE LESS NEED FOR RAISING LEVEL OF TAXATION (SEE PARA 7 ABOVE). CHRISTOPHER

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